

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Shelby County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$97,409 from the prior year, resulting in excess fees of \$430,111 as of December 31, 2007. Revenues increased by \$142,058 from the prior year and expenditures increased by \$44,649.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
The Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Shelby County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2008 on our consideration of the Shelby County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Rob Rothenburger, Shelby County Judge/Executive
The Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Shelby County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 1, 2008

SHELBY COUNTY
 MIKE ARMSTRONG, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 42,145	
Sheriff Security Service	55,724	
Fugitive Transport	12,190	
Cabinet for Health and Family Services	<u>2,374</u>	\$ 112,433

Circuit Court Clerk:

Fines and Fees Collected	5,021
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County Clerk - Delinquent Taxes	3,119
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Commission On Taxes Collected	714,086
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Fees Collected For Services:

Auto Inspections	11,600	
Serving Papers	80,152	
Carrying Concealed Deadly Weapon Permits	17,230	
Tax Penalty	<u>103,183</u>	212,165

Other:

Miscellaneous	23,418	
Fiscal Court Filing Fees	19,860	
Copywork	<u>2,047</u>	45,325

Interest Earned	83,727
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Borrowed Money:

State Advancement	<u>96,232</u>
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Total Revenues	1,272,108
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The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
 MIKE ARMSTRONG, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 239,913

Employee Benefits-

Employer's Share Social Security 23,655

Employer Paid Health Insurance 46,227

Contracted Services-

Advertising 4,074

Vehicle Maintenance and Repairs 22,538

Materials and Supplies-

Office Materials and Supplies 8,371

Uniforms 18,618

Auto Expense-

Gasoline 89,031

Other Charges-

Training 1,024

Law Enforcement Supplies 12,047

Dues 1,945

Postage 9,618

Fugitive Transport 9,011

Telephone 4,843

CCDW 10,435

Fiscal Court Filing Fees 19,860

Computer Repairs 6,618

Miscellaneous 18,114

Capital Outlay-

Office Equipment 14,159

Vehicles 50,134

Vehicle Equipment 37,323

Computers 16,930 \$ 664,488

Debt Service:

State Advancement 96,232

Total Expenditures 760,720

The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
MIKE ARMSTRONG, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Net Revenues		\$ 511,388
Less: Statutory Maximum		<u>81,277</u>
Excess Fees Due County for 2007		430,111
Payments to Fiscal Court - February 28, 2008	\$ 429,903	
June 26, 2008	<u>208</u>	<u>430,111</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Shelby County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Shelby County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. D.A.R.E. Account

The Sheriff maintained a Drug Abuse Resistance Education account during 2007. The beginning balance was \$14,180. Receipts for the year were \$3,377 and disbursements were \$9,078, leaving a balance of \$8,479 as of December 31, 2007.

Note 5. Confiscated Drug Account

The Sheriff used a Confiscated Drug Fund to account for funds seized in drug and other criminal cases which the courts or other law enforcement agencies awarded to the Sheriff. The beginning balance was \$22,549. Receipts for the year were \$8,895 and disbursements were \$1,200, leaving a balance of \$30,244 as of December 31, 2007.

Note 6. Federal Drug Money Account

The Sheriff maintained a Federal Drug Money account during 2007. The beginning balance was \$8,132. Receipts for the year were \$21 and disbursements were \$0, leaving a balance of \$8,153 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
The Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Shelby County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated August 1, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelby County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Shelby County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 1, 2008

COMMENT AND RECOMMENDATION

SHELBY COUNTY
MIKE ARMSTRONG, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacks an adequate segregation of duties. The bookkeeper prepares the daily bank deposit and checkout sheet and then posts items to the receipts ledger. The bookkeeper prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The bookkeeper also prepares checks for all disbursements and posts them to the disbursements ledger. The Sheriff signs all checks. Good internal controls dictate that the same employee should not handle, record, and reconcile, receipts and disbursements. We recommend the Sheriff implement procedures to strengthen internal controls over receipts and disbursements such as:

The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.

The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the quarterly report.

Sheriff's Response: We do periodically check bank statements but have not initialed. We do periodically check deposits against daily checkout sheets and do initial the deposit.

